

STAFF REPORT

IN CONSIDERATION OF RESOLUTION NO. 23-5320 FOR THE PURPOSE OF ADOPTING SOLID WASTE FEES AT THE METRO TRANSFER STATIONS AND THE REGIONAL SYSTEM FEE FOR FY 2023-24.

Date: April 13, 2023
Department: FRS
Meeting Date: April 27, 2023

Prepared by: Cinnamon Williams
Presenters: Brian Kennedy and Cinnamon Williams
Length: 30 Minutes

ISSUE STATEMENT

This resolution will authorize increases to Solid Waste fees at the Metro transfer stations and regional system fee to take effect on July 1, 2023.

ACTION REQUESTED

Council adoption of Resolution 23-5320

IDENTIFIED POLICY OUTCOMES

Council adoption of this resolution will:

1. Increase the Solid Waste fees at the Metro transfer stations and regional system fee to be effective as of July 1, 2023;
2. Provide Council with the annual report of the amount of solid waste that was subject to reduced fees and taxes or exempted during FY 2021-22.

POLICY QUESTION

Should Council increase the Solid Waste fees at the Metro transfer stations (including the total disposal fee, transactions fees, materials charges, and minimum load size fees) and the regional system fee to cover the costs of service of Metro station operations and the regional waste system?

POLICY OPTIONS FOR COUNCIL TO CONSIDER

1. Adoption of the resolution to increase Solid Waste fees at the Metro transfer stations and regional system fee to fund current Department expenses.
2. Reject the resolution and Solid Waste fees at the Metro transfer stations and regional system fee will be unchanged. This action will result in future operational budget shortfalls. This will require Metro to significantly reduce public services and make additional changes to programs and capital plans to keep spending in line with expected revenue collected.

STAFF RECOMMENDATIONS

The Chief Operating Officer recommends adoption of Resolution 23-5320

STRATEGIC CONTEXT & FRAMING COUNCIL DISCUSSION

April 11, 2023, the Chief Operating Officer and the Chief Financial Officer presented to the Metro Council policy choices and fee scenarios for adopting fees for FY 2023-24. In that meeting Council direct staff to continue the approach of fee predictability. This approach is to keep the increase to the overall tip fee within the 8% ceiling, which created a mixed solid waste tip fee of \$133.81. This is 8.3% increase from FY 2022-23. This increase also includes the Metro excise tax increase of .48 cents, which is not a part of the fee development. If the excise tax was flat, the overall tip fee would be 8% increase from the prior year, which is within the ceiling guidance provided by Council.

Staff presented the Council with three scenarios: Full Cost of Service (COS), status quo, 8% Ceiling, and freezing the Regional System Fee. While all four have their pros/cons and cover the needs of the WPES department and the Region's solid waste system, Council requested that staff move forward with keeping the promises made in the prior year and go with the 8% ceiling approach.

In summary, the overall tip fee increase is 8.4% and the minimum load from 300 to 240 pounds to create a fee of \$40. This is still higher than the average minimum load, which is approximately 205 pounds.

Independent Solid Waste Fee Review and Staff response: As required by Metro Code Chapter 5.03.070, staff has had the Solid Waste Fees reviewed by an independent reviewer. Metro employs consultant FCS Group who reviews the Solid Waste Rate Model and provisional fees. This review includes a letter with their findings and recommendations during this review. The current review letter is provided as **Attachment 3** and staff's response is **Attachment 4**.

Clean-up Material and Special Exemptions: Metro Code Section 5.02.070(b) states that the Chief Operating Officer must provide the Metro Council with an annual report indicating the amount of solid waste recycled or disposed under special exemption permits and the total regional system revenue that was not collected during the fiscal year because of those special exemptions. A summary showing the total amount of Metro area waste that was subject to Metro's reduced rate or exempt from fees and taxes during FY 2021-22 is provided in **Attachment 1**.

Known Opposition: A solid waste industry representative has previously indicated opposition to the single disposal fee that Metro charges for solid waste received at its transfer stations. Additionally, some local government partners have also expressed concerns about increasing disposal fees.

Legal Antecedent: The process for setting Metro's solid waste fees and taxes are set forth in Metro Code Chapters 5.02, 5.03, 5.06 and 7.01. Metro reviews its solid waste fees annually. The proposed FY 2022-23 fees comply with the restriction set forth in Chapter III, Section 15 of the Metro Charter limiting user charges to the amount needed to recover the costs of providing goods and services.

Anticipated Effects: Fee changes are anticipated as displayed in the table below:

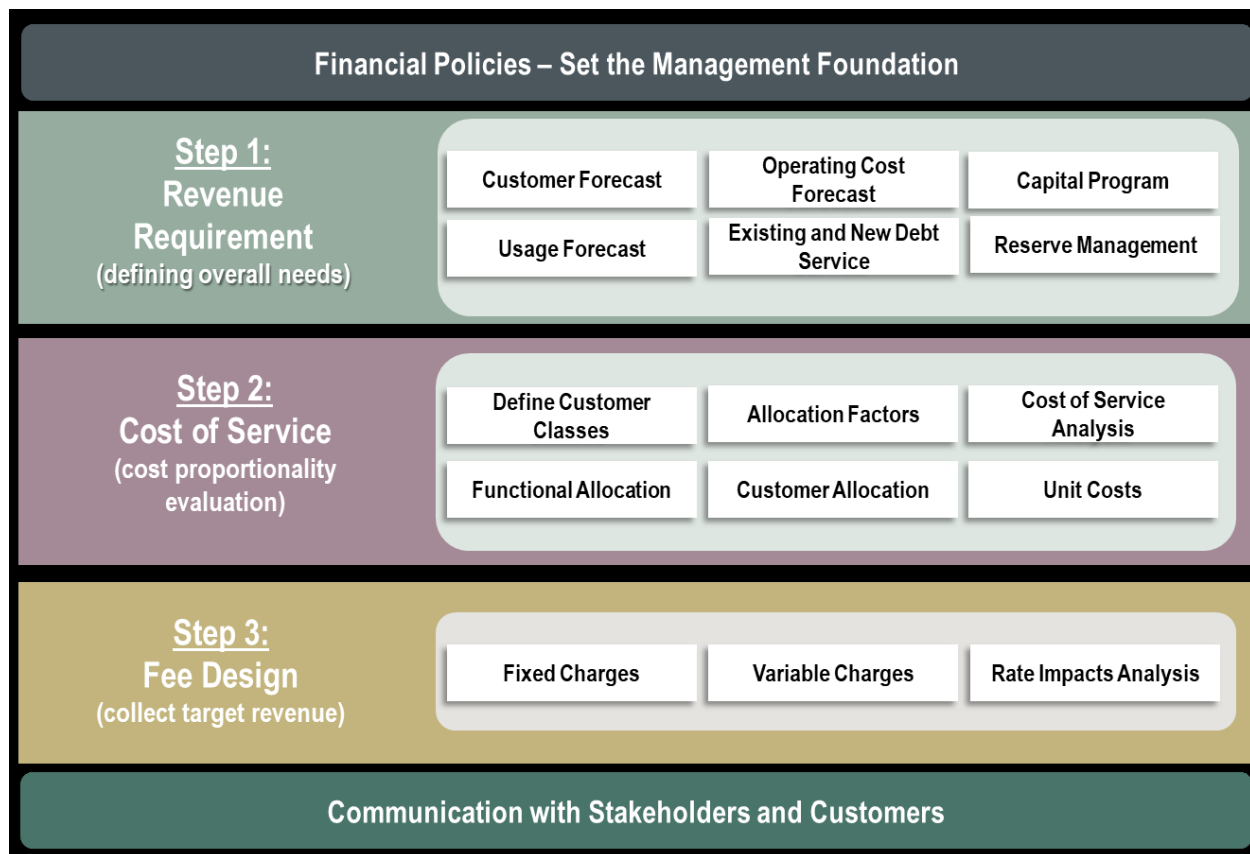
Projected Fee Schedule				
	Existing 2023	Projected 2024	Difference	
			\$	%
Transaction Fees				
Staffed Scalehouse	\$18.00	\$24.00	\$6.00	33.33%
Automated Scalehouse	\$4.25	\$6.75	\$2.50	58.82%
Tipping Fees				
Mixed Solid Waste (refuse)	\$78.39	\$86.23	\$7.84	10.00%
Clean Wood	\$66.31	\$74.93	\$8.62	13.00%
Yard Debris	\$55.00	\$55.00	\$0.00	0.00%
Residential Organics	\$82.38	\$86.15	\$3.77	4.58%
Commercial Organics	\$69.80	\$75.38	\$5.58	8.00%
Fees and Taxes				
Enhancement Fee	\$1.00	\$1.00	\$0.00	0.00%
Regional System Fee (MSW only)	\$29.37	\$31.41	\$2.04	6.95%
Metro Excise Tax (MSW Only)	\$12.80	\$13.28	\$0.48	3.75%
DEQ Fees (MSW Only)	\$1.89	\$1.89	\$0.00	0.00%
Environmental Cleanup Fee	\$2.50	\$2.50	\$0.00	0.00%
MSW Tipping Fee (including taxes)	\$123.45	\$133.81	\$10.36	8.39%
Minimum Fee (MSW)	\$35.00	\$40.00	\$5.00	14.29%

Financial and budget Impacts: The fees established by this resolution are designed to raise \$110 million in enterprise revenue for FY 2023-24. WPES budget Operating and Materials (O&M) expenses are \$123 million for FY 2023-24. The department has discussed budget implications of these fees during their budget discussion on April 20, 2023.

BACKGROUND

Metro establishes the Solid Waste fees based on principles that are generally accepted and widely followed throughout the utility industry. Three key analyses are done: 1) revenue requirement - which identifies the total revenue to fully fund the department on a standalone basis; 2) cost of service - which establishes how to distribute the costs to the end user of the service (or customer class); and 3) fee design - which develops a fee structure that generates sufficient revenue to meet the system's revenue requirement and Solid Waste Fee pricing objectives.

The following generally accepted and widely followed financial policies is fee setting are:



Metro’s fee development follows these guidelines but makes them *four* steps instead of three, to establish clear roles and responsibilities of the work performed by staff.

Metro Fee Development:

Step 1. Identify the revenue requirement – This step identifies the total annual financial obligations of the system. This information comes from the WPES FY 2023-24 *proposed* budget that includes the department’s full operations and maintenance (O&M) costs, capital improvements and replacements and adheres to Metro fiscal policy compliance.

Most of the revenue requirement is driven by the following two areas:

Metro Disposal Service Costs: Metro owns two transfer stations that provide disposal services to commercial haulers, businesses, and the public. Metro transfer stations cover operating costs, such as wages, equipment, improvements, green fuel, and practices that protect the safety of our workers and our customers. Fees also cover the costs of recycling, transport and disposal of the garbage brought to the facilities. Most of these costs are driven from the operation of the stations, transport and disposal are all performed by private operators under long-term contracts with Metro.

Regional Programs: Metro provides or participates in solid waste services and programs with region-wide impact. These services include Metro’s Community Stewardship program (formally known as Regional Illegal Dumping), which cleans up hundreds of tons of garbage dumped on public property every year; education and technical assistance programs to improve recycling and reduce the use of toxic products at homes and businesses; and

oversight of private garbage and recycling facilities to ensure they manage waste in a way that minimizes impacts on local communities. The programs are explicitly included in the budget as:

- Clean-up
- Compliance and Regulation
- Grants and Services
- Local Government Funding
- Paint Recycling and Production
- Policy and Planning
- Waste Prevention Education and Leadership

Establishing the Revenue Requirement: Revenue requirements are driven by the WPES budget for the disposal service, regional program needs and the administrative costs that allow these activities to happen.

Solid Waste Revenue Fund	
CURRENT FY 2023-24 Proposed Budget	
Personnel Services	\$ 28,108,313
Materials & Services	78,660,441
Direct Transfers for Capital Asset Management	482,153
Indirect Transfers for internal cost allocation plan	16,519,079
Proposed Budget Current Expenditures (excluding Capital Outlay)	\$ 123,769,986
Total of reconciling items to match Fee Model	(966,696)
Total Revenue Requirement	\$ 122,803,290
Less: Budget Realization Discount	(5,951,916)
TOTAL OPERATING EXPENSES IN THE MODEL	\$ 116,851,374

Per Council direction, staff implemented a smoothing method to fee development that should provide a bit more predictability to the fees and keep them from being volatile each year. This approach reduces the revenue generated and will requires that the difference be funded with fund balance reserves.

Total amount of revenue to be recovered by the Metro fees, are as follows:

Revenue by Fee Type	
	2024
Staffed Transactions	\$ 8,040,781
Automated Transactions	783,046
Mixed Solid Waste Tip Fee	47,429,391
Clean Wood Tip Fee	151,424
Yard Waste Tip Fee	933,853
Residential Organics Tip Fee	4,207,955
Commercial Organics Tip Fee	1,524,338
Regional System Fee Tip Fee	46,491,280
<i>Cleanup Material</i>	<i>483,907</i>
Total	\$ 110,045,976

This revenue generation calculates a \$6 million deficit from the budgeted O&M costs when not including budget underspend. If the department uses 95% of their budget, this deficit will be greatly mitigated. Reserves and debt financing will be used for capital outlay spending. Staff believes this is a reasonable approach that maintains the overall financial stability of the Solid Waste Fund and adheres to Metro's financial policies.

Step 2. Allocate costs – The fee process uses a cost-of-service approach that distributes costs based on a proportionate share of costs required to provide service. This step calculates (in the fee model) the functional cost allocation to different customer classes based on their unique demands for each service. This provides fee fairness through cost causation.

Indirect Costs: Administrative costs are identified in two different ways, the department's functional administrative costs and the Agency's cost to provide administrative central service support (internal cost allocation plan). These two administrative costs are allocated differently to reflect the different nature of which they are caused. Administrative costs from the department are allocated by how the staffing levels are applied to each program area. The Agency central service costs are allocated in a way that most directly reflect how the Agency allocates costs which is a blend of spending and staff allocations.

Direct Costs: The allocation methodology used identifies how expenses are allocated to the solid waste system functional areas including disposal and recovery, regional programs, sustainability, clean-up, and general policy and compliance. Allocations are based on staff time, tickets processed, floor area and tonnage. The allocation factor is designed to be an equitable expression of the how and why the cost is incurred. The cost-of-service details cost allocation for an additional layer of service by waste type: mixed solid waste, wood waste, yard debris, residential organics, and commercial organics. Costs associated with processing each waste type were reviewed and discussed with Metro staff and leadership.

This cost-of-service process is reviewed for the existing cost allocation approaches and identified changes and additional allocation factors used in the process. A sensitivity analysis indicating the fee impacts of alternative general and administrative cost allocations was included in the review.

Step 3. Forecast activity – This step estimates the waste unit activity in the region to forecast the solid waste activity anticipated for the upcoming fiscal year. Metro staff prepares a Solid Waste Forecast for waste unit activity in the region and projected anticipated levels of tonnage and transactions by material type at Metro transfer stations and private facilities. This information is provided quarterly and for the FY 2023-24 fee development, staff used the Fall 2022 forecast for unit information.

Summary of the 2022 Fall Tonnage Forecast (produced November 2022), compared to the 2022 Winter Tonnage Forecast (produced February 2022):

	Staffed Transactions	Automated Transactions	MSW Tons	Clean Wood Tons	Yard Waste Tons	Res. Organics Tons	Comm. Organics Tons	Regional System Tons
Units for FY24	335,033	116,007	550,034	2,021	19,679	48,845	20,221	1,480,653
Units for FY23	404,742	115,578	575,120	2,372	20,128	34,867	10,220	1,546,631
Increase (decrease)	(69,709)	429	(25,086)	(351)	(449)	13,978	10,001	(65,978)

Step 4. Fee development and design – This step achieves required revenue levels by establishing fees and charges that accurately reflect the cost to provide a particular service. Unit costs were developed for each fee charged and were analyzed to identify any warranted shifts in cost burden that could improve equity between the fees and charges. The result of the cost-of-service process is a calculated fee for providing solid waste services. This process has a great deal of influence from Metro leadership and compliance to financial policies.

The following are the fees and charges for FY 2023-24:

Description	Mixed Solid Waste (refuse)	Clean Wood	Yard Debris	Residential Organics	Commercial Organics
Transactions					
Staffed Scalehouse	\$ 24.00	\$ 24.00	\$ 24.00	\$ 24.00	\$ 24.00
Automated Scalehouse	6.75	6.75	6.75	6.75	6.75
Tip Fee					
Tonnage Fee	86.23	74.93	55.00	86.15	75.38
Regional System Fee	31.41	-	-	-	-
Metro Excise Tax	13.28	-	-	-	-
DEQ Fees	1.89	-	-	-	-
Enhancement Fee	1.00	1.00	1.00	1.00	1.00
Total Tip Fee	\$ 133.81	\$ 75.93	\$ 56.00	\$ 87.15	\$ 76.38
Minimum Load (240 lbs)	\$ 40.00	\$ 33.00	\$ 31.00	\$ 35.00	\$ 33.00

Fee Setting Criteria:

Per Metro Code 5.03.060, each year the Chief Operating Officer will propose fees to Council that will consider any solid waste fee setting criteria and fee setting policies adopted by Council.

Attachment 2 is the current fee setting criteria that will be adopted by Council, through this resolution.

Other Fee Considerations:

Metro assesses the regional system fee and excise tax on waste at the time of disposal. The amount of the fee and tax rate is calculated annually in accordance with Metro Code Chapters 5.02 and 7.01.

In general, Metro has a three-tiered fee and tax rate structure for waste that is transported directly to disposal sites.

- **Full Rate.** The full fee and tax rate, which is included as a component of Metro's transfer station charges, is assessed on most of the region's waste at the time of its disposal (such as household garbage, construction and demolition debris, etc.).
- **Reduced Rate.** The reduced fee and tax rate is generally assessed on contaminated "cleanup material" at the time of its disposal (such as contaminated soils, catch basin pumping, street sweepings, etc.).
- **Exempt.** There is a fee and tax exemption for any material that is recovered, recycled, or diverted away from disposal sites. Under certain circumstances, Metro may also waive fees and taxes for certain types of waste that are sent to disposal sites (such as under

special exemption permits, tire processing residual, and “useful material” which includes alternative daily cover and road base used at a landfill).

Metro Code Section 5.02.070 states that the Chief Operating Officer must provide the Metro Council with an annual report indicating the amount of solid waste disposed under special exemption permits and the total lost revenue arising from the exemption permits granted during the fiscal year. A summary showing the total amount of Metro area waste that was subject to Metro’s reduced rate or exempt from fees and taxes during FY 2021-22 is provide in **Attachment 1**.

ATTACHMENTS

- 1 – Annual Credit and Exemptions Report for FY 2021-22
- 2 – 2023 Fee Setting Criteria
- 3 – Independent Review Letter
- 4 – Staff’s Response to Independent Review Letter